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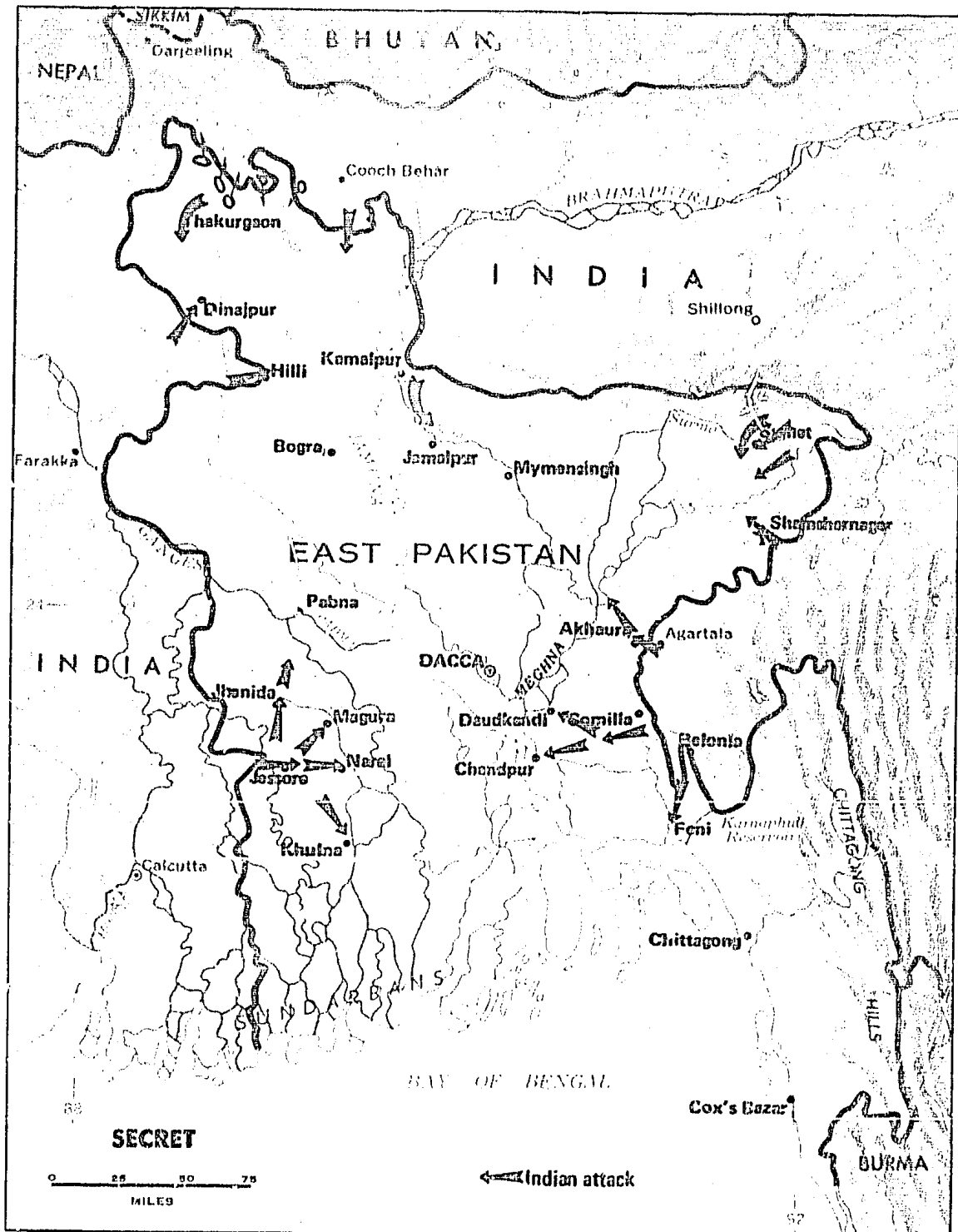
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INDIA-PAKISTAN: The defense of East Pakistan is crumbling. Indian troops are advancing on nearly all fronts.

The town of Comilla fell yesterday, and the Comilla military cantonment is under siege. The fall of this cantonment will mean that of the three major army bases in East Pakistan--Comilla, Jessore, and Dacca--only Dacca remains in Pakistani hands.

The most immediate threat to the capital appears to be developing from the east. Indian troops, according to New Delhi, have reached the Meghna River at several points, including the ferry crossing at Daudkandi only 22 miles from Dacca. The drive may now face a major hurdle, however, if the Pakistanis can cross the Meghna--a wide and difficult river--and hold on the opposite bank. This Indian thrust, and an earlier drive into Feni to the south, have cut off Chittagong District, where there are two Pakistani brigades, from the capital. The Mukti Bahini apparently have been assigned the primary task of eliminating resistance in the Chittagong area with the help of Indian air strikes at the Chittagong port.

Government forces in the northeast could also be cut off from retreat to Dacca by the Indian offensive launched from Akhaura toward Mymensingh. In the northwest corner of the province the Pakistani forces are also falling back under increasingly heavy attacks from the Mukti Bahini. In western East Pakistan, the Indian drive that took Jessore is fanning out in several directions in an apparent effort to isolate the entire southwestern quadrant of the province from the capital.

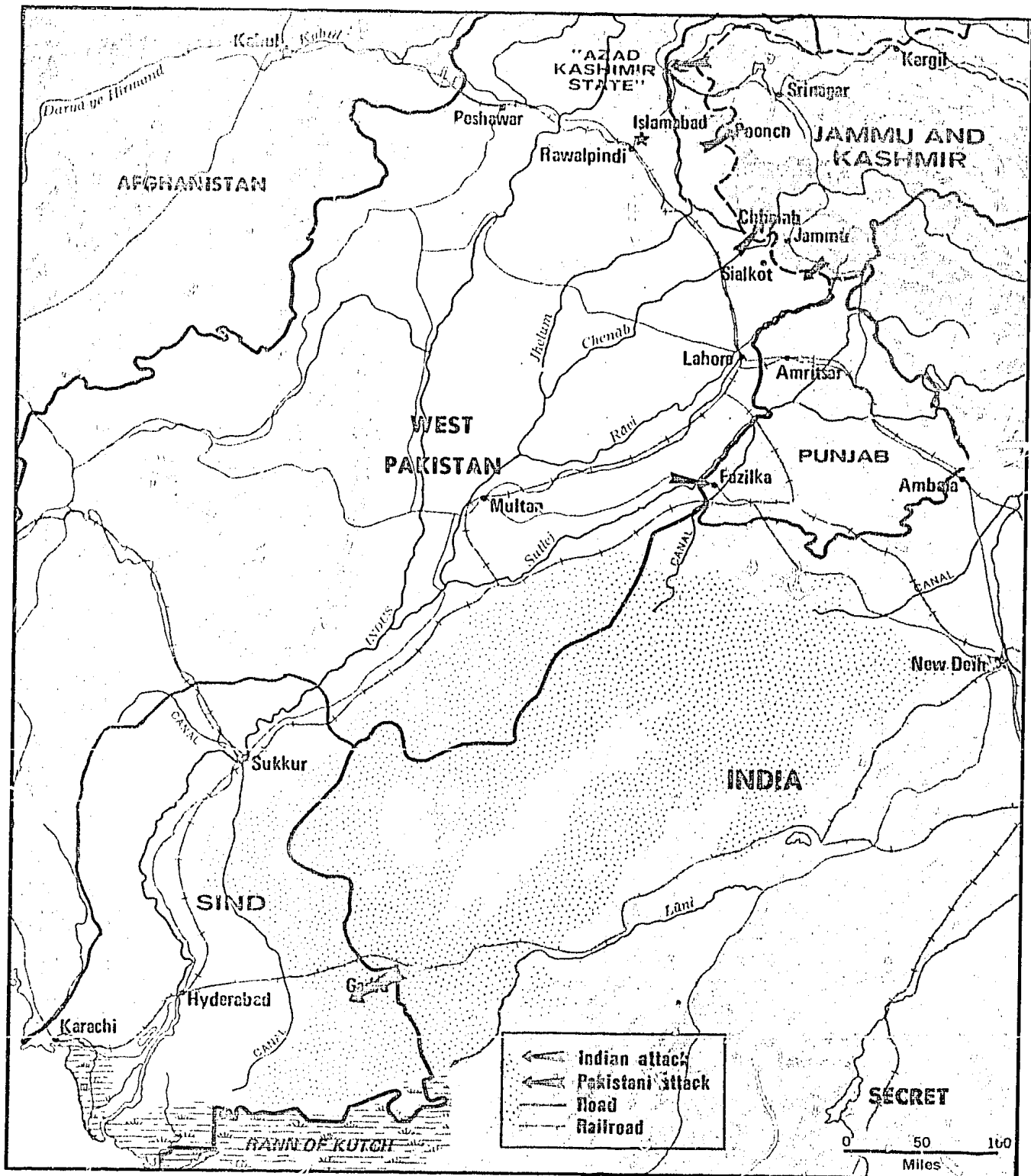
Western correspondents have observed the civil population greeting Indian forces as liberators. Meanwhile, the Mukti Bahini continue to be active both in open engagements with West Pakistani troops and behind the lines. Most of East Pakistan's rural areas have been in guerrilla hands for several weeks.

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[How long Pakistani resistance will continue depends on whether the Pakistani forces are giving up as their posts are taken or are falling back in relatively good order toward a few urban centers, primarily Dacca, for a last-ditch defense. There are some reports of desertions by members of Pakistani Army and police units, but there have been no indications yet that discipline is collapsing or that large numbers of soldiers are surrendering. On the other hand, the major waterways and Indian cuts in the lines of communications will make regrouping difficult. Meanwhile, an undersecretary in the Indian Foreign Ministry has told a US Embassy official in New Delhi that his government would be willing to accept a cease-fire in return for the Pakistani Army's withdrawal from East Pakistan.

Both sides claim to be making advances on the India - West Pakistan front. The Pakistanis continue to press in the Chhamb area and also say they have taken Poonch. The Indians are claiming the capture of two towns in Pakistani territory northwest of Poonch. In the Sialkot sector, the Indians say they have penetrated about six miles into West Pakistan. [REDACTED] the Pakistani Army is preparing for a major ground offensive in the Punjab area that is expected to be launched within the next two days. Farther south, the Indians claim they have captured some 2,000 square miles in Sind Province. However, they are now beginning to encounter Pakistani opposition as they reach the more populous areas of the province.

A Pakistani spokesman in Islamabad has announced that President Yahya will continue to serve as president after the civilian government has been sworn in. Yahya appears anxious to divest himself of sole responsibility for events, but not ready to remove himself from the national scene. How much power will be handed over to the civilians remains to be seen. Meanwhile, leftist Z. A. Bhutto, who is to be deputy prime minister and foreign minister in the civilian cabinet, has departed for New York to plead Pakistan's case at the UN. (SECRET NO FOREIGN DISSEM)

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SOUTH VIETNAM: President Thieu has strengthened his position in the Lower House, but arm-twisting by his lieutenants again has provoked complaints.

Progovernment deputies recently swept all the leadership positions in the Lower House after the government rammed through a requirement that all key officers of the Lower House be chosen by slates in one election rather than in separate contests. The administration correctly reasoned that it could line up considerable support for its slate and that the divided opposition would have trouble agreeing on one list, even though it might include some widely respected deputies. Moreover, the government found generally able candidates for its own slate, including some that had been critical of Thieu but evidently were attracted by the prospect of attaining a measure of power.

The government plan worked, but one of the most successful independent political parties which had appeared to be moving toward closer cooperation with the President--the Progressive Nationalist Movement (PNM)--did not join the government slate when Thieu forces failed to meet its demands. Some fence-mending by Thieu thus seems in order, because without PNM support the regime would be hard-pressed to corral the two-thirds vote that is occasionally needed in the Lower House to push through vital legislation.

While the opposition is calling foul and comparing the one-slate Lower House election with the one-man presidential race, it cannot seriously contest the outcome. Despite their setback, opposition deputies retain a trouble-making potential in Lower House affairs. (CONFIDENTIAL)

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INTERNATIONAL OIL: The Organization of Petroleum Exporting Countries (OPEC) has deferred until January negotiations with Western oil companies on additional remuneration to offset parity changes of major currencies and on the issue of equity participation in oil company operations within their borders.

At a plenary meeting of OPEC in Abu Dhabi this week the members, probably anticipating some clarification regarding realignment of exchange rates of the major world currencies during the next month, announced that talks on compensation would be resumed with the oil companies in Geneva on 10 January. The delay will permit a working party of technical experts representing both Persian Gulf producers and oil companies to refine guidelines further for a settlement of the monetary issue. This group, in two weeks of discussions in Vienna, had not been able to reach any substantive recommendation to table at the Abu Dhabi session.

Moves toward resolution of the participation question are even less firm. A committee is to produce a proposal for OPEC consideration before talks begin on 20 January, but there are diverse views within the membership on the extent of participation to be sought. Libya, which probably boycotted the Abu Dhabi session to protest Iranian occupation of Abu Musa and the Tunbs Islands, has indicated it would act independently. It is expected eventually to demand 51-percent equity in all oil operations within its borders. Other members, who have not yet reached understandings with the oil companies or who have not yet legislated participation, are seeking a smaller share initially. Oil company representatives in London are studying ways of delaying and countering any OPEC demands. (SECRET)

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GUYANA - COMMUNIST CHINA - CUBA: Prime Minister Burnham announced during a recent press conference that permanent trade missions would be exchanged between China and Guyana with the Chinese mission due to arrive in Georgetown in mid-January.

A recent trade agreement calls for the Chinese purchase of Guyanese alumina and timber on a long-term basis with an initial five-year deal worth half a million dollars annually. Peking has also offered to buy 30,000 to 50,000 tons of sugar, but agreement is pending due to prior commitments of the Guyanese sugar industry. If Guyana finds that it can supply the sugar, Prime Minister Burnham believes that two-way trade could reach \$15 million annually. China also pledged several millions of dollars worth of technical assistance to Georgetown. Many trade and technical assistance details, however, remain to be worked out.

In response to a question, Burnham also indicated that it was quite possible Guyana might normalize relations with Cuba in the coming year. He said that his government is now in touch with Cuban officials, and that normalization would begin with renewed trade relations in 1972. (CONFIDENTIAL)

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IRISH REPUBLIC - US: The impasse in Irish-US civil air negotiations may bring violent acts against US property.

The US Embassy in Dublin has received a number of indications that extremist groups may be planning destructive action. A delegation of Irish union officials recently told US officials that American installations and aircraft may be attacked if Washington continues to hold to its "tough, inflexible" bargaining position. The union spokesmen emphasized that they were opposed to violence and it was only their intervention which had so far prevented it.

Given the growing xenophobia of the public and the increasing tolerance of violence as an acceptable means of achieving political and economic goals, the threats cannot be discounted. Irish officials have assured the US Embassy that the government will try to avert violence, but they point out that security forces are already stretched thin because of the situation in Ulster.

The fundamental issue in the long-standing dispute is Washington's position that the landing rights granted to the Irish airline are significantly greater than those accorded to US carriers, and its insistence that US airlines should be authorized to fly to Dublin. The Lynch government is concerned about the economic viability of the Shannon area, the hub of industrial development in western Ireland, as well as of the national airline. The government fears that granting US carriers landing rights in Dublin would lead to bypassing Shannon, thus causing substantial economic losses in western Ireland.
(CONFIDENTIAL NO FOREIGN DISSEM)

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ANGOLA: In a rare display of opposition to government policy, Angolan business leaders have sharply criticized Portugal's new economic restrictions on its overseas territories; the restrictions are designed to improve the territories' unfavorable balance of payments with Lisbon.

At a recent press conference in Luanda, a spokesman for Angolan economic associations attacked the new balance of payments restrictions because they are expected to limit imports severely and to tighten Portugal's control of provincial foreign exchange. He took Lisbon to task for failing to consult with local businessmen and for not allowing Angola the use of foreign exchange generated by four major international industries operating in the province. The government also came under fire because Angolan businessmen are obliged to buy many commodities from the metropole instead of lower-priced foreign goods.

The furor over the economic restrictions has again brought to the front long-standing complaints against the Portuguese mercantilist system that governs the economies of the African territories. Because a tape of the press conference slipped by the normal censorship mechanism, the local radio and press have put out unusually candid accounts of the controversy. Moreover, the recent UK-Rhodesian settlement has given new impetus to separatist sentiment among many white businessmen.

Lisbon is unlikely to permit local criticism of its economic policies to get out of control, however. Despite its much publicized program of increased autonomy for the overseas territories, Portugal would not tolerate a serious challenge to its continued political control of Angola. Moreover, it seems unlikely that such a challenge will materialize given Angola's dependence on Lisbon for men and materiel to fight the ten-year-old insurgency and given the presence of a 60,000-man Portuguese army in the province. (CONFIDENTIAL)

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SOUTH AFRICA: The government is trying to curtail the power of Gatsha Buthelezi, the charismatic political leader of the Zululand Territorial Authority.

Buthelezi is probably the most prominent and popular African on the South African political scene. Although outspokenly opposed to apartheid, he had little alternative but to go along with government plans to establish a Zulu homeland, in order to improve the Zulus' economic lot. His many speeches have been critical of the white government and have made him something of a hero among all blacks. The government is concerned that he might become a focal point for black political sentiment.

Buthelezi now is being challenged by the newly crowned paramount chief of the Zulu, King Goodwill. The King, with the support of some members of the Zulu royal family, is insisting that he be more than just a figurehead and should wield political power. The government supports Goodwill who, it believes, will be less difficult than Buthelezi and hopes thereby to undercut Buthelezi's growing popularity before he emerges as a national leader. At Goodwill's coronation ceremony on 3 December, a cabinet minister urged the Zulus to refuse to let their King be "relegated to a mere figurehead" and promised to incorporate provisions protecting the King's rights in the Zululand constitution. Buthelezi termed the speech "insulting, patronizing, and unnecessary."

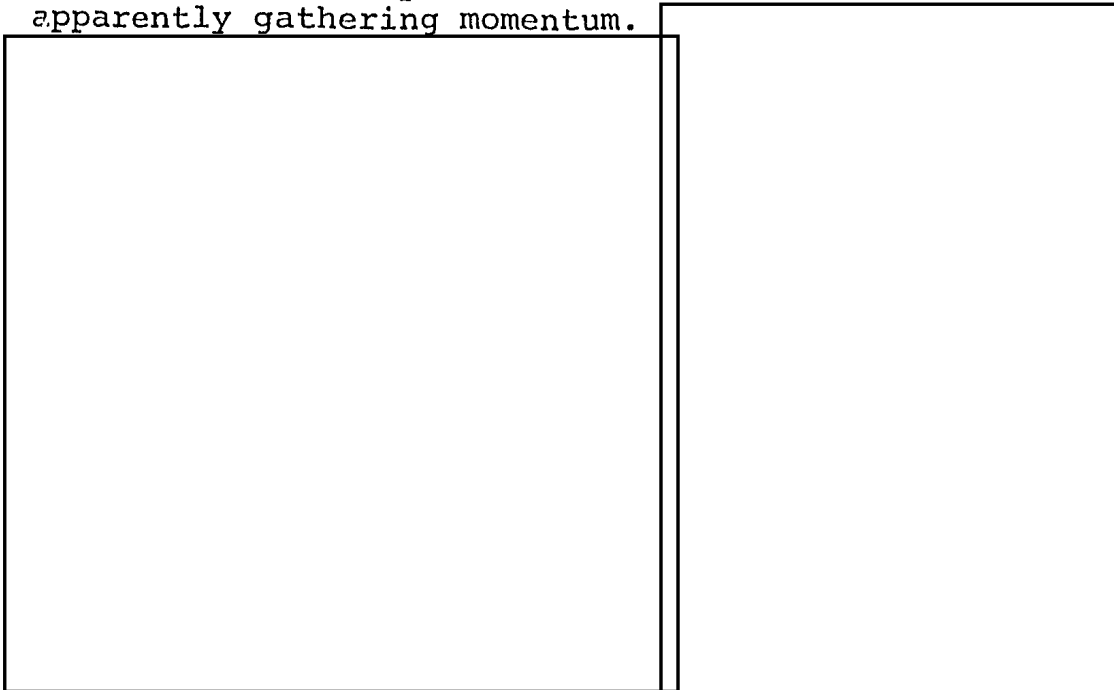
The outcome of the next encounter is uncertain and probably will come in mid-January when the Zululand Territorial Authority meets to work out final terms of the constitution. Buthelezi plans to spend the intervening weeks garnering support for his position that the King is solely a ceremonial head of state. (CONFIDENTIAL)

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NOTE

COMMUNIST CHINA: Peking's campaign to re-establish a national level trade union organization--dormant since early in the Cultural Revolution--is apparently gathering momentum.



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